

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6327

BILL NUMBER: SB 94

NOTE PREPARED: Jan 28, 2003

BILL AMENDED:

SUBJECT: Magistrates' Pensions.

FIRST AUTHOR: Sen. Craycraft

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: This bill: (1) allows a person serving as a full-time magistrate on July 1, 2003, and requires a person who begins serving as a full-time magistrate after July 1, 2003, to become a participant in the Judges' 1985 Benefit System; (2) allows magistrates who are participants in the 1985 Benefit System to purchase, at full actuarial cost, service credit for prior service as a full-time commissioner, magistrate, or referee, or for prior service in other Indiana Public Employees' Retirement Fund positions. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2003.

Explanation of State Expenditures: (Revised) (1) The first provision provides for full-time magistrates to become participants in the Judges' 1985 Benefit System. There are 66 full-time magistrates eligible to become members of the Judges' Retirement System as a result of this proposal. The cost of this provision is estimated to be approximately \$237,522 over the next five years, or approximately \$47,504 per year. The fund affected is the state General Fund.

The increase in unfunded actuarial liabilities is shown in the table below.

Increase in Unfunded Actuarial Liability	\$0
Increase in Annual Funding by Employer	\$925,000

The above table illustrates the fiscal impact of the proposal if the plan was funded on an actuarially

prefunded basis. Since this plan is funded on a pay-as-you-go basis the following table illustrates the increase in estimated recommended annual contributions (based on a projection of benefit payouts) over the next five years. This assumes that all persons serving as magistrates and eligible to join the Judges' Retirement System on July 1, 2003, do so. If this is not the case, the fiscal impact will be reduced. The specific impact will depend upon choices made by the eligible magistrates.

Plan Year	Amount
2003-2004	\$42,166
2004-2005	\$44,696
2005-2006	\$47,378
2006-2007	\$50,220
2007-2008	<u>\$53,062</u>
Total	\$237,522
Five Year Average	\$47,504

(2) The second provision allows magistrates who are participants in the 1985 Benefit System to purchase, at full actuarial cost, service credit for prior service as a full-time commissioner, magistrate, or referee, or for prior service in other Indiana Public Employees' Retirement Fund positions. This provision can result in increased future payouts from the Judges' Retirement System in certain situations, as described below.

Background Information: The bill provides that the purchase of service credits by magistrates must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit; and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the Judges' Retirement System may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current Judges' Retirement service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the Judges' Retirement System.. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the Judges' Retirement System.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment,

the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary **at the time of purchase** before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund (PERF) as administrators of the Judges' Retirement System.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keane, actuary for PERF and the Judges' Retirement System, 576-1508.

Fiscal Analyst: James Sperlik, 232-9866.

DEFINITIONS

Actuarial Funding Method Any of several techniques that actuaries use in determining the amounts and incidence of employer contributions to provide pension benefits.

Funding A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability as that time over the value of its cash and investments.